INTERNATIONAL MONETARY FUND AND WORLD BANK

HELPING DEVELOPING COUNTRIES ADDRESS PUBLIC DEBT MANAGEMENT CHALLENGES—BACKGROUND PAPER

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CONTENTS

GLOSSARY 3

DELIVERY OF THE WORK PROGRAM 4

A. DeMPA in IDA-Eligible Countries 7

B. MTDS in IDA-Eligible Countries 7

C. Bank-Assisted Debt Management Reform Plans 8

D. Other Fund TA in Debt Management 9

E. Training 10

F. Debt Management Capacity Building in Middle Income Countries 11

OVERVIEW OF THE MTDS FRAMEWORK 11

G. What is a Debt Management Strategy? 11

H. Benefits of the MTDS Framework 13

OVERVIEW OF DEMPA FRAMEWORK 14

A. Results 16

OVERVIEW OF BANK-ASSISTED DEBT MANAGEMENT REFORM PLANS 19

A. Introduction 19

B. What Is A Debt Management Reform Plan? 19

C. Design Factors for Success in Implementation of Reform Plans 19

BOX

1. Delivery of Debt Management Capacity Building to Middle-Income Countries 12

FIGURES

1. DeMPA Missions in IDA-eligible Countries by Region, Income Group and HIPC 6
2. MTDS Missions 8
3. Number of DeMPA and Reform Plan Missions Implemented 9
4. DeMPA Results over 2007–09 to 2010–12 17
5. DeMPA Results Since 2010 18

TABLE

1. Detailed Country Coverage of the Work Program 5

Glossary

BIS	Bank for International Settlements
CEMLA	Center for Latin American Monetary Studies
CP	Completion Point
DeMPA	Debt Management Performance Assessment
DMF	Debt Management Facility
DMFAS	Debt Management and Financial Analysis System
DP	Decision Point
DPI	Debt Management Performance Indicator
DRI	Debt Relief International
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific
ECA	Europe and Central Asia
FAD	Fiscal Affairs Department
FSAP	Financial Sector Assessment Program
HIPC	Heavily-indebted poor country
IDA	International Development Association
IMF	International Monetary Fund
LAC	Latin America and Caribbean
LCBM	Local currency bond market
LIC	Low income country
MCM	Monetary and Capital Market Development Department
MENA	Middle East and North Africa
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MIC	Middle income countries
MTDS	Medium-term Debt Management Strategy
OECD	Organization for Economic Co-operation and Development
PDM	Public debt management
PEFA	Public Expenditure and Financial Accountability
SAS	South Asia
SSA	Sub-Saharan Africa
TA	Technical assistance
TFFS	Task Force on Finance Statistics
UNCTAD	United Nations Conference on Trade and Development
WAIFEM	West African Institute for Financial and Economic Management

DELIVERY OF THE WORK PROGRAM

1. The initial work program aimed to complete Debt Management Performance Assessments (DeMPAs) for up to 20 countries and deliver technical assistance (TA) on the Medium-Term Debt Management Strategy (MTDS) framework to four to six countries per annum. The work program was initially targeted at countries included in the heavily indebted poor countries (HIPC) initiative.

2. Both the nature of activities and the country coverage of the program expanded to reflect the nature of demand and significance of needs. A range of additional complementary activities, such as Bank-assisted Debt Management Reform Plans, and other Bank and Fund TA and training, are now provided, and country beneficiaries have been expanded to cover all IDA-eligible countries. The nature of regional support has also changed over time, with Sub-Saharan Africa being the major beneficiary in the early phases of the program, and countries in South Asia and the Middle East having seen support increased significantly in recent years. Importantly, the actual delivery of the work program is demand-driven, based on formal requests from country authorities. Table 1 shows the cumulative stock of these activities.

3. Up to end-December, 2012, fifty-nine IDA-eligible countries have received support under the program (Table 1).[1] Reflecting the programmatic approach adopted by the Bank—with countries encouraged to undertake a DeMPA, and receive joint Bank-Fund MTDS and Debt Management Reform Plan missions, many countries have received assistance through multiple channels. Many countries have also chosen to complement Bank support with targeted TA from the Fund. Being demand driven, the delivery of the work program reflects the priorities of country authorities, coupled with an assessment of country absorptive capacity.

4. The delivery of the work program is discussed in more detail in the following sections.

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[1] Table one covers the delivery of the full work program since 2007. Sixty-two countries have received debt management TA from the Bank and/or Fund. The Bank's contribution to the work program has received considerable support from the Debt Management Facility (DMF) since its inception in November 2008. The DMF was created to allow donors to scale up the Bank's work in its objective to strengthen debt management capacity in IDA-eligible countries. Fund support has been met from its general TA resource envelope.

Table 1. Detailed Country Coverage of the Work Program

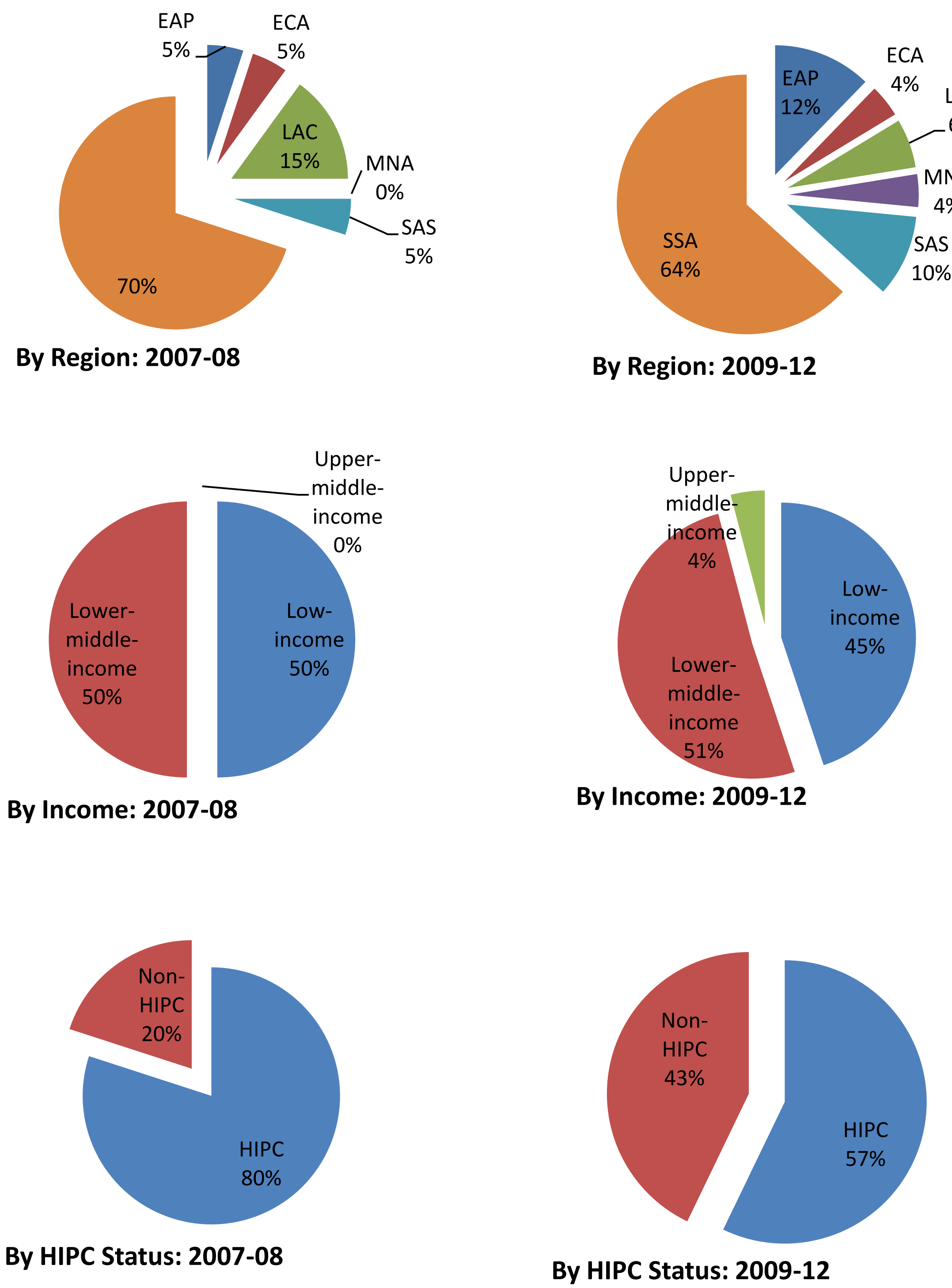
Country	HIPC Status	Debt Management Activities
Africa (35 national governments and 2 sub-national)		
Angola	NA	F
Benin	Post-CP	D
Burkina Faso	Post-CP	D, D(F), M
Burundi	Post-CP	D, D(F), RP, F
Cameroon	Post-CP	D, M, M(F), RP, RP(F)
Cape Verde	NA	D, M, M(F)
Central African Republic	Post-CP	D, D(F), RP
Comoros	Post-CP	D, RP
Congo, Dem. Rep.	Post-CP	D, RP
Congo, Rep. of	Post-CP	D, RP, RP(F)
Cote d'Ivoire	Interim Period	D, M, F
Ethiopia	Post-CP	M
Gambia, The	Post-CP	D, D(F), M, RP
Ghana	Post-CP	D, D(F), M, M(F), RP
Guinea	Interim Period	D
Guinea-Bissau	Post-CP	D
Kenya	NA	M, M(F)
Lagos, Nigeria	NA	D(SN)
Lesotho	NA	D
Liberia	Post-CP	D, RP
Malawi	Post-CP	D, D(F), M, RP, RP(F)
Mali	Post-CP	D, D(F)
Mauritania	Post-CP	D, M, RP
Mozambique	Post-CP	D, M, M(F)
Niger	Post-CP	D
Nigeria	NA	D, D(F), M, M(F)
Ondo, Nigeria	NA	D(SN)
Rwanda	Post-CP	D, M
Sao Tome and Principe	Post-CP	D, D(F), RP
Senegal	Post-CP	D, M
Sierra Leone	Post-CP	D, RP
Sudan	Pre-DP	D
Tanzania	Post-CP	D, F, M, M(F), RP
Togo	Post-CP	D, D(F)
Uganda	Post-CP	D
Zambia	Post-CP	D, D(F), M, RP
Zimbabwe	NA	D, RP

Country	HIPC Status	Debt Management Activities
East Asia and Pacific (7)		
Cambodia	NA	D
Mongolia	NA	D, D(F), F, M
Papua New Guinea	NA	D
Samoa	NA	D
Solomon Islands	NA	D, RP
Tonga	NA	RP
Vietnam	NA	D, RP
Europe and Central Asia (5)		
Armenia	NA	M
Kosovo	NA	D
Kyrgyz Republic	NA	M
Moldova	NA	D, M, M(F), RP
Tajikistan	NA	D, M, RP
Latin America and the Caribbean (7)		
Bolivia	Post-CP	D, F
Grenada	NA	D, F
Guyana	Post-CP	D
Haiti	Post-CP	F
Honduras	Post-CP	D, F
Nicaragua	Post-CP	D, D(F), M, M(F)
St. Lucia	NA	F
Middle East and North Africa (2)		
Djibouti	NA	D
Yemen	NA	D
South Asia (6 national governments and one sub-national)		
Afghanistan	Post-CP	D
Andhra Pradesh, India	NA	RP, RP(F)
Bangladesh	NA	D, F, M, M(F), RP
Bhutan	NA	D, RP
Maldives	NA	D, RP
Nepal	NA	D
Pakistan	NA	D

Source: World Bank WDI Database, PRMED and Fund database.

Notes: D - DeMPA, D(F) - DeMPA Follow-up, D(SN) – Subnational DeMPA, M - MTDS Baseline, M(F) - MTDS Follow-up, RP - Reform Plan, F – other Fund TA.

Figure 1. DeMPA Missions in IDA-Eligible Countries by Region, Income Group and HIPC Status



Source: Staff calculations

A. DeMPA in IDA-Eligible Countries

5. **The coverage of the DeMPA work program has expanded significantly since the first report to the joint Boards in 2007**.[2] A total of 83 DeMPA missions have taken place since the methodology was piloted in 2007 to end-December 2012. Out of the total, 69 were undertaken in IDA-eligible countries, including two sub-national DeMPAs in Nigeria. The pace of demand for DeMPA missions has increased over time, with the bulk (49) taking place after end-2008. Also, the DeMPA program has become more diversified in terms of its regional coverage, with an expansion tilted towards the Middle East (Djibouti and Yemen) and South Asia (Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, and Pakistan). Coverage of Latin America remains somewhat limited. Furthermore, 33 out of 39 HIPC-eligible countries have received a DeMPA mission. Of these 33 countries, 29 had reached completion point, three were post-decision-point, and one was a pre-decision-point country.

6. **The DeMPA work program has also evolved in two additional directions**—follow-up (second) DeMPAs at the country level and DeMPAs at the sub-national level. Thirteen countries[3] have requested a second DeMPA to assess progress made since the first assessment. In parallel, recognizing the increased decentralization in many countries and the particular risks in sub-national debt management, staff developed the Sub-national DeMPA tool and Guide by adapting the methodology of the sovereign tool to the sub-national context. Among decentralized IDA-eligible countries, pilot missions were undertaken in the State of Lagos and Ondo of Nigeria.[4]

B. MTDS in IDA-Eligible Countries

7. **The MTDS program has gathered significant momentum since 2009.** Twenty-eight joint Bank-Fund MTDS missions have been delivered across 23 IDA-eligible countries,[5] of which 13 were post-HIPC completion point.[6] Of these, 10 were follow-up missions.[7] In terms of regional coverage, delivery of the MTDS framework has been concentrated in Sub-Saharan Africa, with 21 missions overall, and Europe and Central Asia, with four missions. Recently, demand from Latin American economies has picked up.

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[2] This paper is third in a series of joint Bank-Fund papers that focus on progress and challenges in strengthening public debt management in developing countries. See "*Strengthening Debt Management Practices—Lessons from Country Experiences and Issues Going Forward*", IMF and World Bank (2007), and "*Managing Public Debt: Formulating Strategies and Strengthening Institutional Capacity*," IMF and World Bank (2009).

[3] These comprise Burkina Faso, Burundi, Central African Republic, The Gambia, Ghana, Malawi, Mali, Mongolia, Nicaragua, Nigeria, Sao Tome and Principe, Togo, and Zambia.

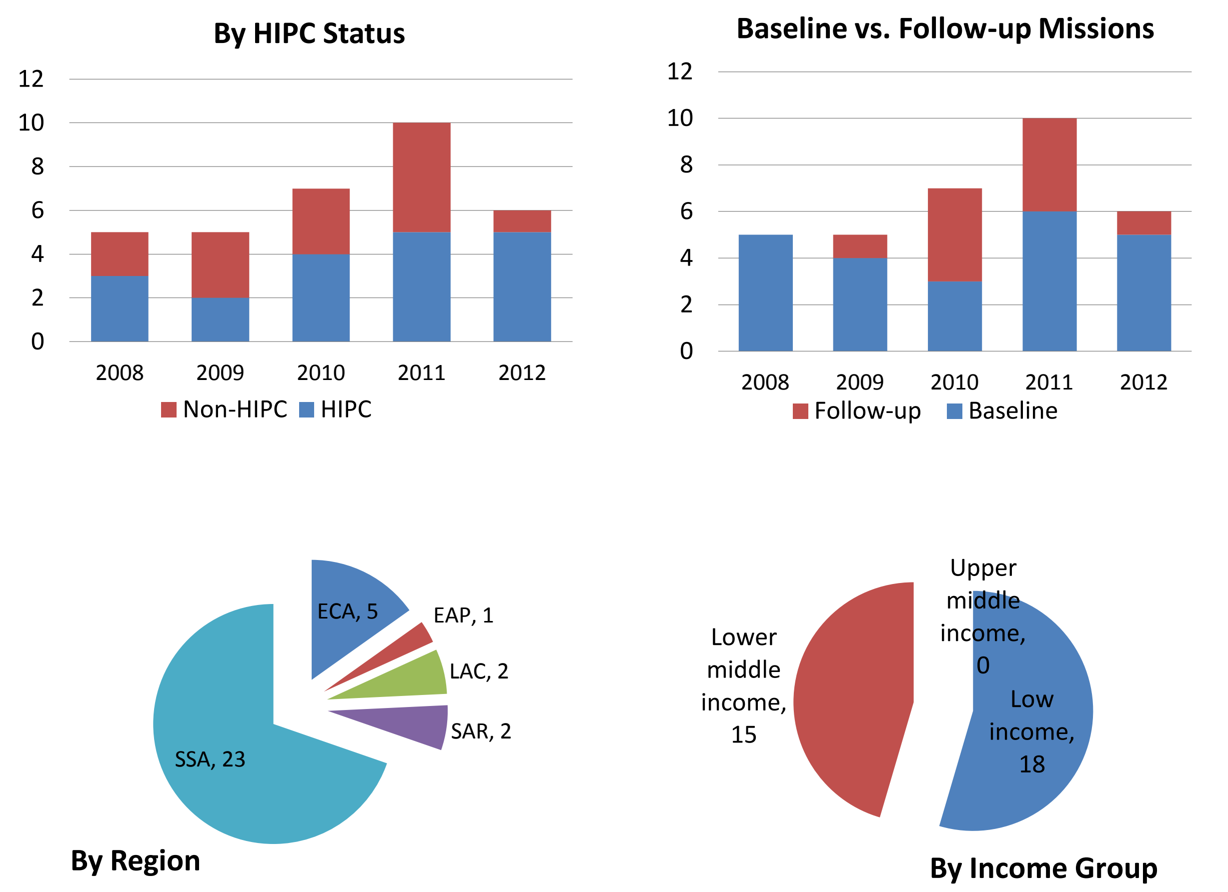
[4] Three other pilots were conducted in Rio de Janeiro State of Brazil, DKI Jakarta in Indonesia and the Metropolitan Municipality of Lima, Peru.

[5] In total, 33 MTDS missions have been delivered since 2008.

[6] These include Burkina Faso, Cameroon, Ethiopia, The Gambia, Ghana, Malawi, Mauritania, Mozambique, Nicaragua, Rwanda, Senegal, Tanzania and Zambia.

[7] These were Bangladesh, Cameroon, Cape Verde, Ghana, Kenya, Moldova, Mozambique, Nicaragua, Nigeria, and Tanzania.

Figure 2. MTDS Missions



Source: Bank-Fund Database.

C. Bank-Assisted Debt Management Reform Plans

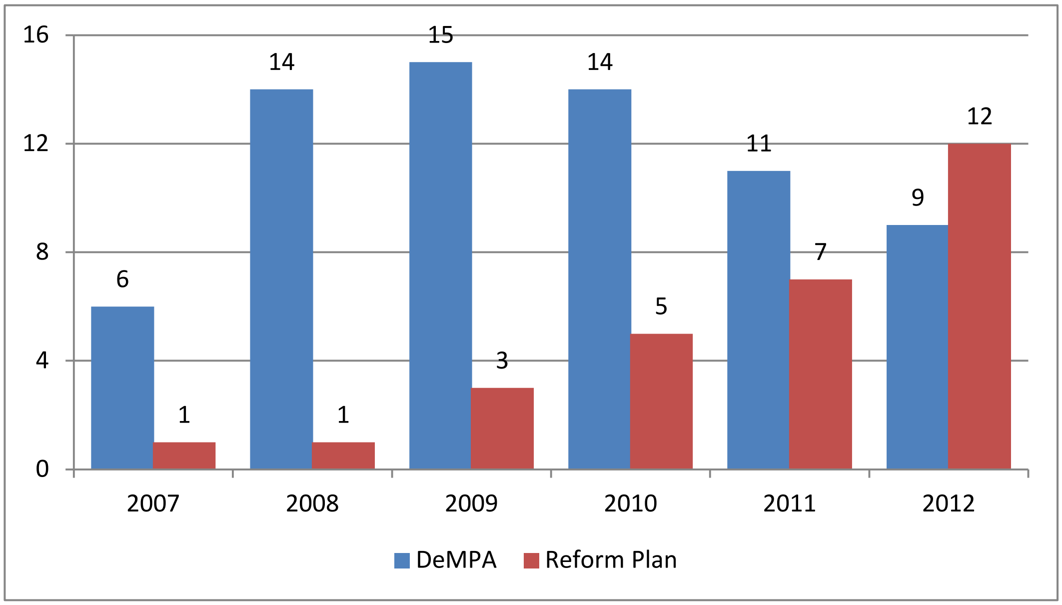
8. Demand for this product has shown strong growth. In 23 IDA-eligible countries, a Bank-assisted Debt Management Reform Plan mission has followed a DeMPA and / or MTDS mission, and helped design a plan to address the weaknesses identified.[8] Fifteen of these countries were in Africa. The missions focused on helping countries develop a reform plan outlining actions and their sequencing, expected outputs and outcomes, and time-bound milestones. These plans also provided an estimate of the budget and resources required to implement the plan.[9] Experience suggests that reform

[8] In total 29 Reform Plan missions were delivered across 24 countries since 2007, including with a subnational authority. Cameroon, Republic of Congo, Malawi and Andhra Pradesh, India had two missions.

[9] Guidance for conducting Debt Management Reform Plans is available at http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1238442914363/5969985-1329841432655/ReformPlanGuidanceNote.pdf.

plans are best sequenced after a diagnostic assessment and hence these missions have grown in line with the DeMPA coverage (see Figure 3).

Figure 3. Number of DeMPA and Reform Plan Missions Implemented



Source: Staff calculations.

D. Other Fund TA in Debt Management

9. In addition to the MTDS, the Fund provides a range of other targeted TA assistance on analytical, operational and institutional aspects related to debt management in developing countries. Both the Monetary and Capital Markets Department (MCM) and the Fiscal Affairs Department (FAD) are active in this area, though each Department provides different elements of support. In addition, the Legal Department and the Statistics Department are called on in specific cases. Since 2009, in addition to the joint Bank-Fund MTDS missions, the Fund has delivered 15 missions on debt management to 11 countries, of which half were to Africa. On occasion, these activities have been delivered as part of a broader mandate to cover complementary debt market development or public financial management issues. For instance, in addition to advice on portfolio risk analysis and strategy development, the Fund has provided tailored advice on the legal framework for debt management, the organization of the debt management office, staffing requirements and profiles, policy coordination challenges (cash and debt, monetary and debt, fiscal and debt), and debt recording and statistics.

10. MCM has also delivered complementary targeted support on debt market development. Over the period in question, eight developing countries received nine focused debt market development missions; about half of these were in Africa and the rest in Latin America or the Caribbean. FAD has also provided targeted advice on how to identify fiscal risks associated with contingent liabilities in one additional instance in Africa.

11. These efforts have also been complemented with other TA support provided by several resident regional advisers on debt management. These advisers have been posted at the Central and

Western Africa, and Middle East Technical Assistance Centers, plus in Central Asia and Azerbaijan. In addition, public financial management advisers at the Caribbean, Central American, and East African Technical Assistance Centers, plus a resident adviser at the Center for Excellence in Finance (Slovenia), have also provided support on specific debt management issues. To ensure they can provide sound advice and effectively support the overall goals of this capacity building program, advisers are actively backstopped by staff at headquarters. In a few instances, advisers have participated in joint Bank-Fund MTDS missions. Overall, the support provided by these advisers helps countries further assimilate efforts to strengthen their institutional, operational and analytical capacity in debt management.

E. Training

12. Training is an important component of debt management capacity building activities. The objectives of the training are to raise awareness of debt management issues, including the need to assess funding risks, and to build in-house technical capacity, which is critical as country access to concessional funding declines.

13. Training has been provided at two levels—training of trainers and direct training of debt management practitioners. The training of trainers has targeted Bank and Fund staff, other TA providers and implementing partners. Training of practitioners has targeted country officials dealing with the country's debt management. These trainings not only boosted their knowledge and ability to understand and utilize the debt management tools, but have also promoted the development of peer networks where learning and experience can be shared across practitioners.

14. Since 2009, 51 training events covering a range of debt management related issues have been delivered by the Bank and Fund. These have covered the DeMPA framework, joint Bank-Fund MTDS, and other debt management concepts and issues. Sub-national debt management and fiscal reform were also covered in a few instances. These events have typically been open to country authorities from both developing and emerging market economies, although some events, especially joint-Bank-Fund training on the MTDS framework, have been more focused on developing economies.

15. Twenty-three training workshops have been delivered on the MTDS framework. Most have had a specific regional focus and have often been delivered in partnership with other technical assistance providers—two with MEFMI (East and Southern Africa), two with WAIFEM (West Africa), two for Francophone Africa (of which one was with DRI), two with CEMLA (Central and Latin America), one with Asia-Pacific Finance Development Centre (Asia) and one with the East Caribbean Central Bank (Caribbean) In addition, five have been hosted at the Joint Vienna Institute with a broad country coverage.

16. These have been complemented by twenty-eight additional training events. For instance, since 2009, the Bank has provided semi-annual training courses on debt management strategy design and debt management strategy implementation at the Joint Vienna Institute and in Tokyo, Japan. Over this period, more than 300 participants from 67 countries attended these courses. Similarly, the Fund has provided five additional workshops on debt management issues, including in collaboration with the Joint Partnership for Africa (1), and the Central American (3) and Middle East (1) Technical Assistance Centers.

17. The new Debt Management Practitioners Program (DMPP), supported by the DMF, has also been launched. Under the DMPP, government officials from debt management offices in DMF-eligible countries are invited to join the World Bank's Economic Policy and Debt Department (PRMED) for three-month assignments. Selected candidates participate directly in the DMF work program, including participation in missions and training. The program provides hands-on and in-depth training in debt management issues and exposure to country work. To date, nine practitioners from Bhutan, Cambodia, Lao P.D.R., Liberia, Malawi, Nicaragua, Burkina Faso, Senegal, and Sierra Leone have participated in the program.[10] Of these four debt managers from Bhutan, Lao P.D.R, Vietnam, and Uzbekistan were hosted from the World Bank's Voice Secondment Program together with the DMPP participants.

F. Debt Management Capacity Building in Middle Income Countries

18. In addition to the work undertaken in developing countries, the Bank and Fund have continued to be active in delivering TA to middle income countries (MICs) (Box 1). In general, while developing countries typically have relatively limited financing choices and constrained institutional capacity, the situation of MICs is more varied. In addition, they often have a broader set of financing options, including options for active risk management. Consequently, while the foundations of effective debt management remain the same, their TA needs are more specialized. Since March 2009, the Bank and Fund have delivered capacity building through a variety of modalities and funded with different arrangements such as trust funds and fee-based services, as summarized below.

OVERVIEW OF THE MTDS FRAMEWORK

G. What is a Debt Management Strategy?

19. The MTDS framework, and related analytical tool, provides a systematic and analytical approach for developing an effective debt management strategy. An effective debt management strategy is a plan that the government intends to implement over the medium-term in order to achieve a desired composition of the government debt portfolio, which reflects the government's preferences on the cost-risk trade-off. It should operationalize country authorities' debt management objectives—e.g., ensuring the government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk. A strategy should have a strong focus on managing the risk exposures embedded in the debt portfolio—which could translate into a non-negligible change in the cost of debt servicing, with related budgetary impact.

[10] One each from Bolivia and Myanmar are currently being hosted at PRMED under the DMPP.

Box1. Delivery of Debt Management Capacity Building to Middle-Income Countries

Since March 2009, both the Bank and Fund have delivered capacity building to a broad range of middle-income countries (MICs), through a variety of modalities, as summarized below.

World Bank Country Work[1/]

The approach to TA is often based on a comprehensive needs assessment (e.g., Barbados, Belarus, Jamaica, and Trinidad & Tobago) and tailored reform plans. DeMPA assessments and/or reform plans were undertaken in Belarus, Gabon, Namibia, and Swaziland. Supported by a multi-donor trust fund—the Government Debt and Risk Management Trust Fund, with initial funding provided by SECO—work has been initiated or will be undertaken in Azerbaijan, Colombia, Egypt, Ghana, Indonesia, Peru, Serbia, South Africa, Tunisia, and Vietnam. The scope of work differs across countries but typically includes: governance, institutional capacity and management of internal operations, debt management strategy and risk management (e.g., contingent liabilities). A significant part of the country work (e.g., El Salvador, Guatemala, Kazakhstan, Panama, Romania and Ukraine) consisted of TA and/or training in the design and review of quantitative models, and the design of the debt management strategy. In some cases TA was provided as a component of broader programs, and often included use of the MTDS tool (e.g., Armenia, Dominican Republic, and Paraguay). A number of countries requested assistance in institutional capacity building and strengthening of internal operations (e.g., India, Croatia, Cyprus and United Arab Emirates). Support for strengthening debt management in Lebanon was provided under a broader public finance reform program. Other areas of support included assessing debt management information systems (e.g., Bosnia and Herzegovina), the design of new debt management laws, (e.g., Albania and Georgia) and issues related to cash management. A few MICs (e.g., Indonesia, Chile, and Colombia), sought TA for addressing broader balance sheet risk. Technical support to sub-national governments was provided in Andhra Pradesh (India), City of Warsaw (Poland), and Rio Grande do Sul (Brazil).

IMF Country Work

Since March 2009, the Fund has delivered about 27 TA missions in debt management or debt market development from headquarters. This includes 5 missions delivered in partnership with the Arab Monetary Fund (AMF) in the context of the Arab Debt Market Development Initiative. In addition, there has been a regional focus on debt management in the Caribbean with TA delivered in Antigua, the Bahamas, Dominica, Jamaica, Trinidad and Tobago, and St. Kitts and Nevis, complementing the TA to Grenada and St. Lucia reported in the main paper. Debt management issues have also been central to a number of UFR-related surveillance missions, such as St. Kitts and Nevis, while broader debt management and debt market development issues have been covered in detail in the context of Article IV surveillance in 9 countries, including Belize, Bulgaria, Dubai, Jordan, and United Arab Emirates. Other TA missions to help authorities deal with specific debt market development issues included Bolivia, Mauritius, and Serbia, while debt and cash management issues have been explored in Kosovo, Malaysia, Paraguay, and Vietnam.

Joint Country Work

Following the model of joint Bank-Fund MTDS missions to developing countries, and reflecting the general applicability of the framework, joint TA missions on developing a debt management strategy have been delivered in Armenia, Belarus, Guatemala, and Paraguay. In addition, the Bank and Fund have coordinated some of their TA delivery in Jamaica.

1/ Note Bosnia and Herzegovina and India are also IDA-eligible.

H. Benefits of the MTDS Framework

20. The eight-step MTDS process provides a clear framework for making informed choices on how the government's financing requirement should be met given the authorities' objectives. Such a systematic approach to decision-making can help strengthen the debt management function, enhance analytical capacity and help reduce operational risk even where capacity is constrained.

21. Using the MTDS framework to develop an explicit and formal debt management strategy enables the authorities to:

- **Evaluate the cost-risk trade-offs**: The MTDS framework allows informed decisions to be made, ensuring that the costs and risks associated with alternative debt strategies are clearly identified and taken into account. Setting clear medium-term strategic goals will help debt managers avoid poor decisions made solely on the basis of cost or to satisfy immediate pressures.

- **Identify and manage risk**: Even where financing choices are limited, the MTDS helps identify and monitor key financial risks (refinancing, interest and foreign exchange risks), and establish strategies that ensure countries are well placed to take advantage of new borrowing opportunities, in a consistent and risk conscious way. The MTDS is also a risk management tool that helps to identify, analyze and manage portfolio risks.

22. In addition, adopting the MTDS framework provides benefits with respect to:

- **Coordination**: The structured process of developing a strategy encourages coordination with fiscal and monetary management, helping to reconcile different objectives and constraints, including on domestic debt market development, cash management and balance of payments issues. Along with enhancing coordination, it clarifies each function's core objectives. This helps to more clearly define the responsibilities and accountability for debt management decisions separately from fiscal and monetary policies.

- **Identification of constraints**: The MTDS analysis helps identify the constraints that limit the debt manager's choices, allowing, where possible, the adoption of measures to ease those constraints.

23. The steps involved in designing an MTDS are set out below. Note that although these steps are presented in a specific sequence, this is only indicative. In practice, the distinction between steps may not be so clear, and several steps may be undertaken simultaneously, and/or in a different order:

- Identify the authorities' objectives for debt management and the scope of the analysis.

- Examine the characteristics of the current debt management strategy and analyze the cost and risk properties of the existing debt portfolio.

- Identify and analyze potential funding sources, including their cost and risk characteristics.

- Identify baseline projections and risks in key policy areas—fiscal, monetary, external, and market.

- Review key longer-term structural factors that could affect the design of the strategy.
- Assess and rank alternative debt strategies on the basis of the cost-risk trade-off.
- Review implications of candidate debt management strategies with fiscal and monetary policy authorities, and their implications for the market.
- Submit and secure relevant policy makers' agreement on the strategy.

24. Once the strategy has been agreed, it should be disseminated through a published strategy document. Publication provides benefits with respect to:

- **Cost:** A debt management strategy can potentially lower the cost of debt servicing, as an effective and transparent strategy will support domestic debt market development, facilitate the relationship with investors, creditors and rating agencies, and support efficient cash management practices.
- **Transparency:** A formal and explicit strategy helps build broad-based support for responsible financial stewardship, enhancing governance and accountability.

25. The debt manager should develop an annual borrowing plan that is consistent with the approved strategy and reflects any assumptions regarding enhanced market access. As the borrowing plan is implemented, its impact and alignment with the pre-defined strategy should be regularly monitored and evaluated. In addition, the strategy should be reviewed on a regular basis, at least annually, or more often if macro or market conditions change significantly. This monitoring and review process is an important element of effective risk management.

OVERVIEW OF DEMPA FRAMEWORK

26. The DeMPA tool was developed in 2007 as a comprehensive methodology for assessing public debt management (PDM) performance.[11] It provides a standard to measure performance by assessing the strengths and weaknesses in country PDM operations. This assessment can form the basis for the design of an actionable reform program, thereby helping harmonize donor support in this area.

[11] The framework was developed under the oversight of the Bank-wide Debt Management Technical Working Group, and through a broad collaborative effort with country officials, TA providers, international standard setting agencies and related stakeholders. The current product also benefited from experiences and feedback gained through field testing in Albania, Guyana, The Gambia, Malawi, and Nicaragua. Inputs provided by the IMF; Debt Relief International (DRI); the DMFAS Programme of the United Nations Conference on Trade and Development (UNCTAD); the Debt Management Division of the Commonwealth Secretariat; the United States Department of Treasury—Office of Technical Assistance; and international standard setting bodies (e.g., OECD, PEFA and the Task Force on Finance Statistics) enhanced the applicability of the tool. The tool was subsequently revised in December 2009, based on inputs received from its operational application and suggestions received at training/outreach events from inter alia, Crown Agents, MEFMI, WAIFEM, Pole Dette, CEMLA, Asian Development Bank, and African Development Bank (http://go.worldbank.org/5AHEF2KF70).

It also permits country authorities, international donors and creditors to monitor progress in strengthening PDM operations in a country over time.

27. The DeMPA diagnoses six core functions of PDM: These functions are (1) governance and strategy development; (2) coordination with macroeconomic policies; (3) borrowing and related financing activities; (4) cash flow forecasting and cash balance management; (5) operational risk management; and (6) debt records and reporting.[12] Its scope is central government PDM and closely related functions such as issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. However, in line with international standards on debt reporting, the debt reporting indicator requires that the central government report on both central government and total nonfinancial public sector debt, as well as loan guarantees. The scoring is modeled after the Public Expenditure and Financial Accountability (PEFA) indicators.

28. The DeMPA attaches a score to each aspect of PDM. Each dimension of the DeMPA is measured across a set of benchmarks and a rating allotted, adopting a scoring methodology similar to PEFA.[13] This allows country authorities to monitor improvements over time and benchmark their performance relative to international sound practice. Emphasis is placed on meeting the minimum requirement considered to be a necessary condition for effective performance, i.e., achieving a C score for a specific dimension. Failure to meet that minimum requirement is interpreted as signaling a serious deficiency in performance and a priority area for reform. The dimensions of each indicator provide a level of detail that can form the basis for the design of an actionable reform plan.

29. A key value of the assessment is the qualitative description that justifies each score. This is captured in the assessment report. By highlighting, in detail, the specific strengths and weaknesses, the report enables the development of a prioritized PDM reform plan. However, the report stops short of making explicit recommendations for reforms or setting out an action plan as these activities require careful follow-up.

30. The assessment is discussed with the country authorities, but it is not a negotiated document. Where the authorities' views differ from that of the assessment, the divergence of views is reflected in the report. It is a document owned by the authorities, to be used to help improve PDM operations as they determine, and it is at the country's discretion whether or not the assessment report is published.

31. The DeMPA missions are demand driven and not linked to any conditionality. The mission process is initiated upon receipt of a request from the country authorities. The mission findings and the report are shared with the authorities and only released at their discretion. The DeMPA scores are not related to any lending or fiduciary conditions of the World Bank as a lending institution.

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[12] The tool is available at the web-link below and is complemented by a Guide that provides supplemental rationale and information on each indicator to assist users (http://go.worldbank.org/5AHEF2KF70).

[13] An important difference relative to PEFA is the emphasis placed on meeting a minimum requirement.

A. Results

32. Since 2009, staff has undertaken 49 assessments in 46 IDA-eligible countries and with two sub-national authorities.[14] As the product is demand driven, there is no pre-defined target list of countries. However, assessments have been completed in a diverse set of countries, including lower MICs, some upper MICs and those at differing stages of the HIPC process. Over three-fourths of the assessments were carried out in partnership with regional TA providers. This partnership has helped raise awareness of regional/local issues, and also called for consistency with downstream implementing activities and for enhanced capacity among TA providers.

33. Methodological changes make the early DeMPA results (2007–09) not strictly comparable to subsequent assessments. This distinction corresponds to the revision of the methodology in December 2009 to incorporate suggestions based on its operational application across a diverse set of countries. The revision resulted in the assessment criteria being clarified and/or made stricter for some indicators, more flexible for others, while a few dimensions were dropped.[15] The decline in the ratings since 2010 for the "coordination with fiscal policy" indicator is partly explained by the amendments to this indicator (Figure 4). Staff strengthened the minimum requirement from "merely having access to key fiscal variables" to "having undertaken an in-house DSA within the last three years"; thereby assessing the capacity to undertake a DSA independently. Similarly, reduced scores for the indicators on 'debt reporting' reflect a stricter assessment, benchmarked against the requirements for public sector debt reporting as defined by the Task Force on Finance Statistics (TFFS).[16]

34. Differences in country coverage also likely explain changes in scores (in 2010–12) in a number of areas. Regarding "coordination with monetary policies", a number of countries in the pre-2010 period were part of either the Economic and Monetary Community of Central Africa or the West African Economic and Monetary Union. As such the governments were bound by strict and prudent legislation that limited the access to direct funding from the regional central banks. The expansion in coverage since 2010 has resulted in a smaller share of countries in the sample that are part of currency unions with such legislation. Similarly, improvements in the dimensions assessing the policies and procedures for domestic borrowing may in part be attributable to the higher coverage of IDA-eligible MICs in the period since 2010 (Figure 4). Countries with higher shares of domestic debt also tend to have clearly defined and market-consistent debt issuance procedures and auction mechanisms that help maintain credibility with investors. A similar explanation applies for the better performance in the indicators assessing the accuracy and completeness of debt records and evaluation of debt

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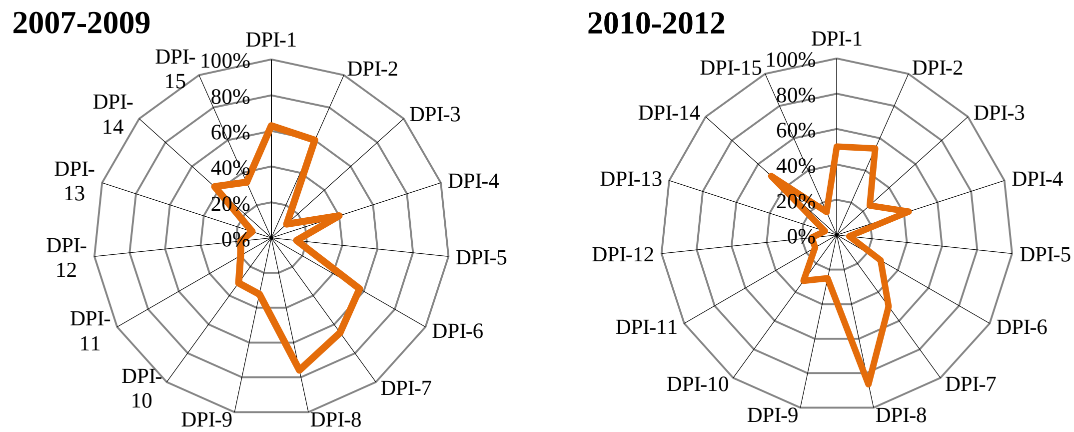
[14] Since 2007, 69 assessments have been undertaken in 54 IDA-eligible countries.

[15] The indicators that were made stricter were those relating to coordination with fiscal policy and on the reporting of total public sector debt. In the respective dimensions, the requirements for assessing fiscal variables and the debt statistical bulletin were clarified. In addition, the dimension that assessed how the debt management entity operated the government accounts was deleted (in the cash management indicator).

[16] The Task Force on Finance Statistics is a joint WB-IMF-OECD-BIS standard setting body that has developed benchmarks for public debt statistics with which the DeMPA indicator is benchmarked.

management operations. Also, since 2010, the sample included a larger number of non-HIPCs or HIPCs that graduated and had strengthened their debt offices. Finally, twenty-eight countries in the sample had a follow-up MTDS and/or a Reform plan mission suggesting that the programmatic and sustained engagement could also be responsible for the identified improvements.

Figure 4. DeMPA Results over 2007–09 to 2010–12[1]



Source: World Bank staff calculations.

Note: DPI-1: Legal Framework; DPI-2: Managerial Structure; DPI-3: Debt Management Strategy; DPI-4: Evaluation of Debt Management Operations; DPI-5: Audit; DPI-6: Coordination with Fiscal Policy; DPI-7: Coordination with Monetary Policy; DPI-8: Domestic Borrowing; DPI-9: External Borrowing; DPI-10: Loan Guarantees, On-lending and Derivatives; DPI-11: Cash Flow Forecasting and Cash Balance Management; DPI-12: Debt Administration and Data Security; DPI-13: Segregation of Duties, Staff Capacity and Business Continuity; DPI-14: Debt Records; and DPI-15: Debt Reporting.

1/ Number of countries (including follow-ups) in period 2007-09 is 35, and 28 in 2010-12. Results from finalized reports are taken while those from the sub-national DeMPAs are not included. The results are normalized to reflect uniform percentages.

35. **Methodological differences apart, the results across the two periods provide key pointers and help identify common priority areas for debt management reform across countries.** In both periods, there have been major deficiencies in operational risk management and cash flow forecasting and management (Figure 4). Less than half of the sample met the minimum requirements for sound governance, performance of public debt management audits and the development of a robust debt management strategy. Most were not able to assess the cost-risk trade-offs of the existing debt portfolio.

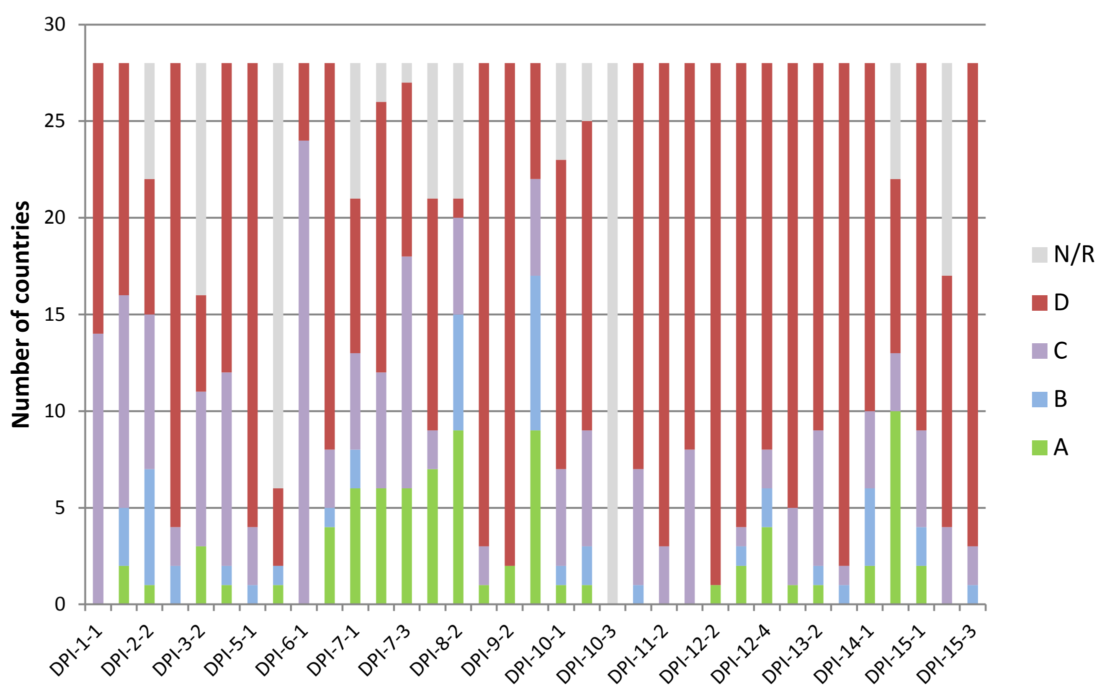
36. **A closer look to the 15 individual indicators and their associated dimensions permits identifying key areas of concern (Figure 5).** For example, the weak operational risk management results can be explained by the absence in most of the countries of (i) business continuity planning; (ii) strong operational controls; and (iii) well-articulated responsibilities for staff. The poor performance under sound governance and debt management strategy captures the fact that very few countries in the sample had a formal debt management strategy, or effective accountability frameworks with regular

performance audits, in place. These weaknesses outweighed the positive factor that the majority of countries had effective legal frameworks underpinning borrowing. In the area of cash flow forecasting and cash balance management, performance was impeded by weak forecasting of the aggregate cash balances in government bank accounts.

37. Weaknesses observed in the area of external borrowing are of particular concern. Less than one-third of the countries in the sample met minimum requirements in this area. Scores on this indicator pointed at: (i) weak assessments of the most beneficial/cost-effective terms and conditions of available borrowing options; and (ii) a generalized absence of documented procedures for borrowing in foreign markets. These findings are of particular concern given that a number of the countries in the sample have expressed interest in issuing in international capital markets in coming years.

38. The results also show that very few developing countries have sound debt management strategies. While many countries in the sample had some form of a debt management strategy, it did not have approval of the relevant policy makers and was not supported by a decision making process that ensured its implementation, regular updating, and publication. Moreover, most strategies were not underpinned by any sound cost-risk analysis of the debt portfolio.

Figure 5. DeMPA Results Since 2010



Source: World Bank staff estimates.
Note: Data in the charts relates to 28 IDA-eligible countries for which the reports have been finalized since 2010.

OVERVIEW OF BANK-ASSISTED DEBT MANAGEMENT REFORM PLANS

A. Introduction

39. As part of its programmatic approach to strengthening debt management in developing countries, the Bank provides support in developing a debt management reform plan. This section summarizes the lessons learned from cross country work in developing debt management reform plans. These plans tend to be country-specific and vary considerably depending on the existing circumstances of the country.

B. What Is A Debt Management Reform Plan?

40. The debt management reform plan is a time-bound agenda designed to put in place an effective debt management framework. The timeframe of the plan should ideally not exceed three to five years (medium-term) to maintain momentum and focus. The key aspects of a debt management reform plan are:

- A diagnosis of the key weaknesses in government debt management institutions, functions and operations, informed by a recent and comprehensive assessment, for example DeMPA.
- The scope of the reform plan can cover all government debt management activities, loan guarantees, lending, and cash balance management, or can be limited to focus on country specific priorities as discussed and agreed with the authorities. Nevertheless, if the scope of the plan agreed is seen as narrow, the plan should at least be consistent with the broader institutional setting, in order to avoid a piecemeal approach.
- A prioritized and sequenced action plan to address areas requiring improvement. The plan needs to be project-related and contain details on the expected outputs and outcomes, actions, sequencing and milestones. It also provides an estimate of the resources, budget and time required to implement the plan.
- A country-specific approach to realistically set the speed at which institutional and structural reforms can be implemented, and reflect the willingness of the authorities to undertake them.

C. Design Factors for Success in Implementation of Reform Plans

41. Experience suggests there are six key factors that are critical for successful implementation:

- Political commitment is critical, especially for institutional reform. To ensure this support, it is essential that the reform plan is developed in close coordination with country authorities.

- Realism in resourcing and timeframes. Although programs aimed at developing a sound government debt management capability can take many years, there should be clear timelines and enough funding for financing the main stages of the implementation process.

- Country specificity and appropriateness. Reform plans are best characterized as "good fit" rather than "best practice." These must reflect country specific priorities, prevailing political climate, technical difficulty, and capacity constraints. These plans need to be practical enough to be implementable.

- Reform champion. In line with the above, it is essential to have a committed project manager in the country, a local champion who can drive the process forward. In a debt management project this support must come from the minister or the deputy minister of finance.

- Integration with broader reform efforts. Debt management reforms can be more effectively sustained by integrating them into broader programs, such as public sector or public financial management reforms. Such integration helps ensure project sustainability and continuity through financing, support by experts, and project supervision.

- Proper sequencing. Sequencing of the project components will differ for each country depending on the initial state of the government's performance. Nevertheless, experience does provide some specific insight on sequencing. In particular, the 12-country pilot program concluded that: "The basic building blocks that must necessarily come first are building capacity in the back office and establishing reliable debt recording systems. These are required to ensure timely servicing of the debt, without having to rely on creditors' notifications, and to produce accurate and frequent reporting. Beyond these steps, sequencing has been varied." Detailed guidelines are available at: http://go.worldbank.org/CFPMWGNZ70.